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AFRICA'S DEBT PROBLEM: MEASUREMENT, MANAGEMENT AND DEVELOPMENT IMPLICATIONS

A TECHNICAL PAPER

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INTRODUCTION

1. The problem of Africa's mounting external debt and heavy debt-service burden has been identified as a major obstacle to Africa's effort at economic recovery and accelerated development. The problem is particularly serious because of the sharp decrease in Africa's export earnings in recent years, as a result of the continuing low prices of primary commodities, the decline in resource flows to Africa especially on concessional terms and the low capacities for domestic savings mobilization. A special Conference of African Ministers of Finance was convened in June 1984 to address this problem. It adopted the Addis Ababa Declaration on Africa's External Indebtedness which was later endorsed by the African Heads of State and Government.

2. In July 1985, Africa's Priority Programme for Economic Recovery 1986-1990, (APPER) considered Africa's external debt as the second most critical aspect of the African social and economic crisis after agriculture and food production. Subsequently, at their Third Extraordinary Assembly held in Addis Ababa, Ethiopia, from 30 November to 1 December 1987, the Heads of State and Government of the Organization of African Unity reviewed in detail, the deterioration in Africa's external debt situation and the excessive external debt servicing obligations of many African countries. They expresed deep concern that despite their individual efforts to resolve the crisis and despite the repeated appeals to the international community during the preceeding three years, no concrete and lasting solutions have been implemented to alleviate the debt crisis. They unanimously agreed that unless urgent action is taken, the external debt crisis will not only intensify, but will also seriously jeopardize the very foundation for Africa's economic recovery and self-sustained growth.

3. As a means of addressing the debt crisis the African Heads of State and Government adopted the African Common Position on Africa's External Debt Crisis and concluded that «a lasting solution to the external debt problem of developing countries can only be found within the framework of comprehensive and parallel actions in the major economic sectors, in recognition of the interdependence among the external debt issues, flow of development assistance, improved international trading system, improved commodity prices and the reform of the international monetary system».

4. The purpose of this paper is to outline the various aspects of Africa's external debt, such as definition, structure, problems of management and measures that have been proposed to deal with the external debt crisis. In order to facilitate the comprehension of the issues, a brief summary of the definition, concepts and clarification of debt terms used in international negotiations is presented in Part I. Part II outlines the impact of external debt on Africa's prospects for economic recovery and self-sustained growth. Part III is a synthesis of the problems of debt management and measures agreed to be taken to deal with the debt crisis.

PART I : DEFINITION, CONCEPT, AND MEASUREMENT OF EXTERNAL DEBT

I. DEFINITION AND CONCEPT

5. The definition of external debt and the concepts used to determine its structure and magnitude are an important element in dealing with the debt crisis of African countries. Several definitional approaches seem to be adopted by various international financial institutions such as the World Bank, the International Monetary Fund (IMF) and the African Development Bank (ADB). Other institutions such as the Commonwealth Secretariat, the Organization for Economic Co-operation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTAD) also define debt differently. The result has been wide-ranging differences in the estimates of Africa's total debt as well as debt service obligations. Indeed, the measures proposed to deal with the debt issue also vary according to the conceptualization and perception of the debt burden.

6. For the purpose of this paper, the definition adopted by the African Heads of State and Government is the most suitable. They defined Africa's external debt «broadly as all its external financial obligations outstanding at a particular point in time. These financial obligations are those contracted either by the government or are guaranteed by the government for public corporations, or are contracted directly by public corporation and by the private sector. This definition is understood to cover such items as principal on public and publicly guaranteed debts; long, medium and short-term commercial loans and credits; suppliers' credit; private non-guaranteed debts; undisbursed debts; obligations to multilateral institutions including the International Monetary Fund and the World Bank; arrears on interest; and other related payments. 1/

1/ See African Common Position on Africa's External Debt Crisis adopted by the Third Extraordinary Assembly of Heads of State and Government of the Organization of African Unity, 30 November - 1 December 1987.

(a) Common Terms used in Debt Reporting

7. In addition to this broad definition, given below are the financial terms generally used in debt statistics under a harmonized data collection and debt classification. 2/

(i) Account Stated :

8. This refers to the simple acknowledgment of a debt which is considered merely prima facie evidence of the existence of the debt and may be rebutable by further evidence. Account stated may also mean that parties who have had a series of mutual transactions have agreed expressly or implicitly to a set-off of the items against each other and to be answerable only for the balance.

(ii) Accrued Interest

9. The cumulative running of interest, on capital asset or financial liability usually on a day-to-day basis or a specified period that has not been paid.

(iii) Amortization

10. The provision made in advance for the redemption of loans or bonds by periodic payments from a sinking fund which is built up for the porpose of redeeming such an amount of obligations when due to be paid off, along with the interest on outstanding obligations.

2/ See Richard L. Kitchen «Finance for the developing countries.» Johnwiky & Sons 1986. Chandavarkar A.G. «The International Monetary Fund»; Its financial organization and activities.» IMF Washington, D.C.

(iv) Back-to-Back Loan

11. This term refers to any loan which is guaranteed by an equivalent deposit until the loan is liquidated. In recent times, however it refers to a loan denominated in one currency backed by a deposit in another currency possibly in a different country.

(v) Bank Credits

12. Credit granted by a commercial bank (commercial credit) usually through discounting of a promisory note the proceeds of which are added to a customer's credit balance. Such credit may also be created through the purchase by the commercial bank of a Government bond. This would create a credit balance to be drawn upon by the government when required.

(vi) Composition with Creditors

13. Where a debtor is unable to pay his creditors he may, legally, call his creditors together and make arrangements with them, by which he may obtain relief from his debt, and one of the usual methods by which this is done, is to offer to pay a composition. That is, to pay a given amount in the full discharge of the debts due to the creditors. The composition is usually payable in a number of installments, upon specified dates and is guaranteed bu sureties (see also rescheduling).

(vii) Forward exchange

14. A foreign bill of exchange or foreign currency bought or sold for future delivery. Its price, called the forward rate, is expressed as being at a premium (or discount) to the spot rate. This hedges the purchaser against fluctuations in exchange rates. The forward rates are quoted for one, two and three months, transactions for intermediate periods being calculated therefrom.

(viii) Revolving Credit

15. A revolving credit is one for a certain sum which is automatically renewed by putting on at the botton that which is taken off at the top. It is credit under which an indefinite amount may be drawn as opposed to a fixed credit. There may also be a revolving fund or letter of credit created for the purpose of making payments when they are due.

(ix) Interest Rate

16. An amount paid to a lender or creditor for the use of capital. The sum is expresssed in terms of a rate of percentage of the amount of capital (principal) involved. The interest rate may be «fixed» at the time of the negotiation or may be «variable» indicating that it would vary according to prevailing market conditions.

(x) Roll-over loans

17. These refer to medium term loans, where the interest rate is reviewed or adjusted in accordance with market conditions at the end of each «roll-over period» usually every six months.

(xi) Debt Service

18. Service payments are actual repayments of principal (amortization) and interest payments made in foreign currencies, goods or services in the year specified. Projected service payments (debt service obligations) are estimates of payments due on existing debt outstanding, including undisbursed. They do not include projections of service payments that may become due as a result of new loans contracted in subsequent years. They do not allow for the effects on service payments of changes in repayment patterns due to prepayment

of loans, or to future rescheduling or refinancing, including repayment of outstanding arrears. Net flows (or net lending) are disbursements minus principal repayments and net transfers are net flows minus interest payments or disbursements minus total debt-service payments are also included in the calculation of debt servicing obligations.

(xii) Debt Service Ratio

19. This term refers to the level of repayments of principal loan instalments and interest during a given period or at a given point in time expressed as a percentage of total exports of goods and services during that reporting period i.e.:

$$\text{Debt Service Ratio} = \frac{\text{Principal instalment + interest}}{\text{exports (goods + services)}} \times 100$$

(xiii) Rescheduling

20. The renegotiation of a loan with official creditors or a commercial bank which has fallen due but the creditor is unable to meet his obligations. The effect of the «rescheduling» is to postpone the maturity date to some agreed future date. The rescheduling usually results in new terms and conditions of the loan. Official and officiallly guaranteed debts are usually rnegotiated in the Paris Club, while the debt owing to commercial banks which are not covered by export credit insurance are usually renegotiated through an ad hoc Commercial Bank, Advisory Committee, commonly known as the «London Club».

II. CLASSIFICATION OF DEBT

21. For purposses of effective debt management strategy, the classification of debt becomes important, largely because of the different terms and conditions governing the debt. The following are the commonly used categories of external debt :

(i) Multilateral Debts

22. These refer to loans and credits from international organizations (multilateral loans) such as the World Bank, the International Monetary Fund, regional development financing institutions (e.g. African Development Bank) and other government agencies. Multilateral loans usually carry the lowest rates of interest which are usually below the market rate and longest grace and maturity periods.

(ii) Public and Publicly guaranteed Debts

23. Loans from governments and their bilateral aid agencies including Central Banks and autonomous public bodies. These loans also generally carry favourable lending conditions but are usually «tied» to some conditions based on the nature of relationship between the lending and borrowing country.

(iii) Commercial debts

24. Commercial debts or loans private debt refer to any debt from private creditors (banks, discount houses and other financial institutions) and include short-term credits with maturities of 1-6 months; suppliers credits; credits from manufacturers, and loans from insurance companies), provided none of these is acting on behalf of/or as an agent of a government.

III. MEASUREMENT OF EXTERNAL DEBT

25. The accurate measurement of external debt is a complex matter involving the use of mathematical models and electronic data processing. Most African countries are still in the process of developing effective systems of debt measurement. A successful system largely depends on the debt reporting mechanisms put in place for such purpose and the frequency with which the debt projections and estimates are revised to approximate the real situation.

(a) Structure of Africa's External Debt

26. Africa's total external debt has increased dramatically in recent years, having grown from US$139.5 billion in 1982 to US$168.7 billion in 1985 and over US$200 billion at the end of 1986 i.e. an increase of over 64 per cent in just four years. By the end of 1988, the debt is estimated at about US$240 billion. This represents over 50 per cent of Gross Domestic Product (GDP) and over 300 per cent of export earnings. The total debt servicing obligations stood at over US$24 billion in 1985 and are expected to escalate to over US$30 billion by 1990.

27. Based on some assumptions that the development scenario will remain as existed in 1986, a long-term model can be constructed to show how the debt pattern will appear at different period. To this extent, the medium and long term external debt of African countries estimated expressed in billion of US dollars is estimated as follows :

1986	**200 billion US dollars made up of:**	
	Long-term debt	**151.3 billion**
	Short-term debt	35.1 "
	IMF credit	8.1 "
	Other identified creditors	5.5 "
1990	256.9 billion US dollars	
1995	375.9 "	
2000	550.5 "	

28. An important factor to note is that, there has also been a marked shift in the structure of Africa's external debt with a shift from non-debt to debt creating resource flows. The share of non-concessional debt has risen the share as indicated by the decline in ODA official loans from 63 per cent.

(b) A Debt Measurement Model

29. The following debt model is constructed as an aggregative model but could be adapted to meet national requirements based on individual country debt strategies :

(i) Total Identified Debt 1/

The total debt identified (D) at a given period t is explained by equation $D_t=D_{t-1}+NL_t$ ..... (1)

where D_t = Total identified debt at period t

D_{t-1} = Total identified debt at period t-1 or previous year

NL_t = New Loans at period t

(ii) Short-term and Long-term Debt

The total debt identified D_t is a sum of long term debt (DLT) and short-term debt (DST).

1/ For more details read ECA document presented to the meeting of intergovernmental experts on finance and monetary questions preparatory to the 3rd extraordinary session of OAU Heads of States and government : Africa's external debt perspectives in the medium and the long term with or without relief «Specially in its annex Africa's debt projections. A Methodological Framework», p. 7-11.

$$D_t = DLT + DST \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (2)$$

We consider also that DLT is a portion of D_t, then :

$$DLT = ZDT \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (3)$$

where

Z = The position of D_t

If DLT in (2) is replaced by its equivalent in (3), then we get

$$D_t = Z\,D_t + DST \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (4)$$

or

$$DST = D_t - ZD_t$$

or

$$DST = (1-Z)D_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (5)$$

(iii) Public Debt (DG)

$$DG_t = n_1 DLT_t = n_2 DST \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (6)$$

(iv) Private Publicly Guaranteed Debt (DPG)

$$DPG_t = m_1 DLT + m_2 DST \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (7)$$

(v) Private Debt (DP)

Combining equation to we get :

$$DP_t = (1-n_1-m_1)+(1-n_2+m_2)DST \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (8)$$

Where

DG_t = Total public debt at period t

DPG_t : Total private publicly guaranteed debt at period t

n_1 : Proportion of government debt in total long-term debt

n_2 : Proportion of government debt in total short-term debt

m_1 : Proportion of private publicly guaranteed debt in total long-term debt

m_2 : Proportion of private publicly guaranteed debt in total short-term debt.

(vi) The Amortization of the Outstanding Debt

(a) Principal payments :

$$PPDG_t = p_1 m_1 DLT_t + p_2 n_2 DST_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (9)$$

$$PPDPG_t = q_1 m_1 DLT_t + q_2 m_2 DST_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (10)$$

$$PPDP_t = u_1(1-n_1-m_1)DLT_t + u_2(1-n_2-m_2)DST_t \quad \ldots\ldots\ldots\ldots \quad (11)$$

$$PPD_t = PPDG_t + PPDPG_t + PPDP_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (12)$$

Where

PPDG: Principal payment on long term public debt

PPDPG : Principal payment on long term private publicly guaranteed debt

PPD: Principal payment on total long term debt

P_1, P_2, q_2, u_1, u_2, are respective coefficients of principal payments on long-term and short-term government, private publicly guaranteed and private debts

(b) Interest rate payments :

$$INTDG_t = g_1 n_2 DLT + g_2 n_2 DST_t \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (13)$$

$$INTDPG_t = h_1m_1DLT_t + h_1m_1DLT_t+h_2m_2DTS_2 \quad \ldots\ldots\ (14)$$

$$INTDP_t = k_1(1-n_1-m_1)\ DLT_t+k_2(1-n_2-m_2)DST_t \quad \ldots\ (15)$$

$$INTD_t = INTDG_t+INTDPG_t+\ INTDP_t \quad \ldots\ldots\ldots\ (16)$$

where

INTDG	Interest rate paid on public debt
INTDPG :	Interest rate paid on private publicly guaranteed debt
INTDP :	Interest rate paid on private debt
INTD :	Total interest rate payments on debt which should be equivalent to be one estimated in equation (1.44)

g_1, g_2, h_2, k_1 are respective coefficient of interest payments in long-term and short-term government, private publicly guaranteed and private debts.

(viii) Debt Servicing (DS)

$$DS_t = PPD_t + INTD_t \quad \ldots\ldots\ldots\ (17)$$

The debt burden is calculated on the basis of the various ratios, namely :

(a) The ratio of debt service to total exports of goods and services (DSR)

$$DSR = DS_t/X \quad \ldots\ldots\ldots\ (18)$$

(b) The ratio of total or net debt to total exports of goods and services (NDR)

$$NDR_t = (D_t - R_t)/X_t \quad \ldots\ldots (19)$$

or

$$DR_t = D/X_t \quad \ldots\ldots (20)$$

(c) The ratio of total debt to gross domestic products (DYR)

$$DYR_t + D_t/GDP_t \quad \ldots\ldots (21)$$

(d) The ratio of reserves to imports of goods and services (DMR)

$$DMR_t + R_t/M_t \quad \ldots\ldots (22)$$

And terms are as defined elsewhere.

(viii) Policy Scenarios for Improved Debt Situation

The medium and long-term outlook on growth prospects with and without relief implies two main scenarios : The historical trend scenario and the improved debt situation scenario. Two fundamental assumptions underlie the improved debt situation scenario :

(a) improvements in international monetary, and financial systems,

(b) improvements in international commodity markets

The savings that can be actually realized from the adoption of the projected improvements in debt servicings in comparison with the existing structures of debt repayments are computed viz.

$$SDSR = (DSR \times X_t) - (DSR \times X_t) \quad \ldots\ldots\ldots\ldots\ldots\ldots \quad (23)$$

The implications of such relief measures on growth prospects can be examined by :

$$Y = f(MK) \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (24)$$

where

$$MK = SDSR$$

and where

MK : is the increase in the import capacity of investment goods

y : is the realized increase in total income.

PART II: EFFECTS OF DEBT SERVICE ON AFRICA'S ECONOMIC RECOVERY AND DEVELOPMENT

I. TRENDS IN DEBT SERVICING

30. The magnitude and impact debt servicing on the African recovery and development prospects can be analysed on the basis of two scenarios: one assuming no significant changes in debt relief measures and the other assuming more favourable responses from the creditor countries and hence significant debt relief. On the basis of the model described in Part I, the projections on which these scenarios are built were extrapolated from historical trends observed in certain factors such as the growth rate of the GDP, export earnings, import bills, current account balance, deficit financing, and new loan requirements. To a large extent and in so far as reliable historical data were available, the variables considered have been projected on the basis of simple but well established technical and economic relations. Furthermore, to ensure the coherence and homogeneity of the projection all critical variables have been analysed, projected and examined within an overall macro-economic context.

Table 1: Historical Baseline Scenario: Projections of balance of payments (in billion US dollars)

	1985	1986	1990	1985	2000
Merchandise exports FOB	64.0	63.9	63.5	63.0	62.5
Merchandise imports FOB	-58.0	-60.1	-69.2	-82.6	-98.6
Trade balance	6.0	3.8	-5.7	-19.6	-36.1
Non-factor services (credit)	1.0	1.0	1.0	1.0	1.0
Non-factor services (debit)	-6.5	-6.8	-7.8	-9.3	-11.1
Net FN services	-5.5	-5.8	-6.8	-8.3	-10.1
Interest payments (credit)	1.4	1.6	2.9	6.0	12.5
Interest payments (debit)	-8.2	-8.9	-12.1	-17.8	-26.3
Net interst payment	-6.8	-7.3	-9.2	-11.8	-13.8
Profit remittance (credit)	-	-	-	-	-
Profit remittance (debit)	-2.4	-2.4	2.2	-2.0	-1.8

Table 1 (cont'd)

	1985	1986	1990	1995	2000
Net profit remittance	-2.4	-2.4	-2.2	-2.0	-1.8
Travel (credit)	2.3	2.2	1.8	1.4	1.1
Services balance	-12.4	-13.3	-16.4	-20.7	-24.6
Private transfers (net)	4.7	4.9	5.7	7.0	8.6
Government transfers (net)	4.3	3.5	4.6	6.5	9.1
Total transfers (net)	8.0	8.4	10.3	13.5	17.7
Current Account Balance	1.6	-1.1	-11.8	-26 8	-43.0

Source: ECA

(a) The Debt Servicing situation by the Year 2000 without Debt Relief

31. The major critical factors likely to affect Africa's debt servicing capacity up to the year 2000 have been scrutinized. There include: (a) the prospects of improved commodity prices; (b) the entranced role of pricate and pulbic sector in mobilizing new international loans fro Africa; (c) improvements in the international environment, especially exchange rate policies, interest rate predictability and debt reschedulling possibilities. For the period 1986-1990, it is felt that conditions underpinning Africa's Priority Programme for Economic Recovery and the United Nations Programme for Africa's Economic Recovery and Development remain unchanged.

32. The level of indebtedness of African countries up to the year 2000 is projected on the basis of capital finance requirements that would necessitate large financial flows. To that end,the method used have combined: (i) the foreign exchange gap method according to which the overall balance of payment deficit of African countries as a whole has been computed and projected; (ii) the "saving gap" method which has made it possible to estimate savings deficit and more specifically the investment needs which have to be met through domestic savings. It is by

consolidating those two methods that projections on the balance of payments from 1985 up to the year 2000 based on observable historical trends has been established as shown in Table 1.

33. Projection of the current account balance is based on the fact that exports and imports of goods and services are a function of external and internal macro-economic parameters which on analysis indicate that conditions prevailing in 1985 may remain stagnant and even deteriorate instead of improving. Table 1 which is the projection of a scenario based on previous trends, forecast an average annual fall in exports of 0.16% until the year 2000 and an annual rise in imports of 3.6%. Factor services including interest payments and travels will rise as in the past to an average growth rate of 4.7% based on historical data has been calaculated, analysed and forecast for the coming years. The same method has been applied in the calaculation of public and private transfers at the rates of 7% and 4.1% respectively.

34. If no readjustment is made from now till they are 2000, and things are allowed to take their course, it is expected that the debt service burden would be exarcerbated by the international environment and would weigh heavily on the international economic situation of African countries impairing further their limited capacity to utilize and maintain existing productive infrastructures and export levels. This would push the average ratio of debt service to export earnings from 48.4% in 1995 to 71.8% by the year 2000 as shown in Table 2 below.

Table 2: Historical base line of the debt strucure 1/

1995

Debt * Structure		Finance ** Modalities				Debt Repayments (billion US$)		Debt Service		
(1) Type	Weight	Init. Vol.	Interest	Maturity	Grace period	Grant element	(2) Interest	(3) Principal	(4) DTS/X X(1)	(5) DTS/GDP(2)
Official	73.6	230.4	6.0	26.2	5.7	30.5	10.8	6.1		
Private	26.4	82.6	9.4	12.4	5.4	1.8	7.6	6.5		
	100.0	313.0	-	-	-	-	18.4	12.6	48.4	6.7

1/ Source: ECA projections based on data submitted by OECD and member States.
(1) DTS/X: Debt service as a percentage of export of goods and services
(2) DTS/GDP: Debt service as a percentage of the Gross Domestic product.

Table 2(cont'd)

2000

Debt Structure (billion) Type	Weight	Init. Vol.	Intrest rate%	Maturity years	Grace period years	Grant element %	Interest	Principal	DTS/X	DTS/GDP
Official	73.6	337.4	6.0	20.0	4.5	20.5	15.9	8.9		
Private	26.4	121.0	9.4	10.0	3.0	0.0	11.2	9.6		
		458.4	-	-	-	-	27.1	18.5	71.8	8.3

(b) The Debt Service Situation by the year 2000 with Debt Reflief

35. The second scenario is based on the expectation that the international creditor community will respond positively to APPER and hence a more solid foundation for economic recovery would have been laid down for self-sustaining growth in the 1990's This is based on the following assumptions:

(i) that the condition underlying Africa's Priority Programme for Economic Recovery would be maintained. From 1990 until 1995, official debt would account invariably for a 80% of total debt with private debt representing 20%. As from 1995 up to the year 2000 official debt would account for 85% of the total and private debt 15%.

(ii) that interest rates would take a downward trend as from 1995 and interests on official debt would decline from 6% (historical scenario) to 5.5% in 1995 to 4.5% in the year 2000. Furthermore, interest rate on private debt which in 1985 was 9.4% would fall to 8.9% in 1995 and 8% in the year 2000 to the advantage of African debtor countries. These rates have been estimated on the basis of the projected changes in the international market rates;

(iii) that in both cases, maturity period has been increased. Maturity for official mutlilateral debt would be extended to 27 years in 1995 and 50 years by the year 2000 and maturity for private debt for the same priod would be 14 years;

(iv) that the grace period for official debt would be fixed at 8 years as from 1995 and stabilized at 10 years in the year 2000 while that for private debt would be maintained at 5.4 years until the year 2000.

(v) that the grant element as a percentage of official debt would be raised gradually from 30.5% in 1995 to 75% in the year 2000 while grant element for private debt would be level of 1.8%.

II. DEVELOPMENT IMPLICATIONS OF THE EXTERNAL DEBT CRISIS

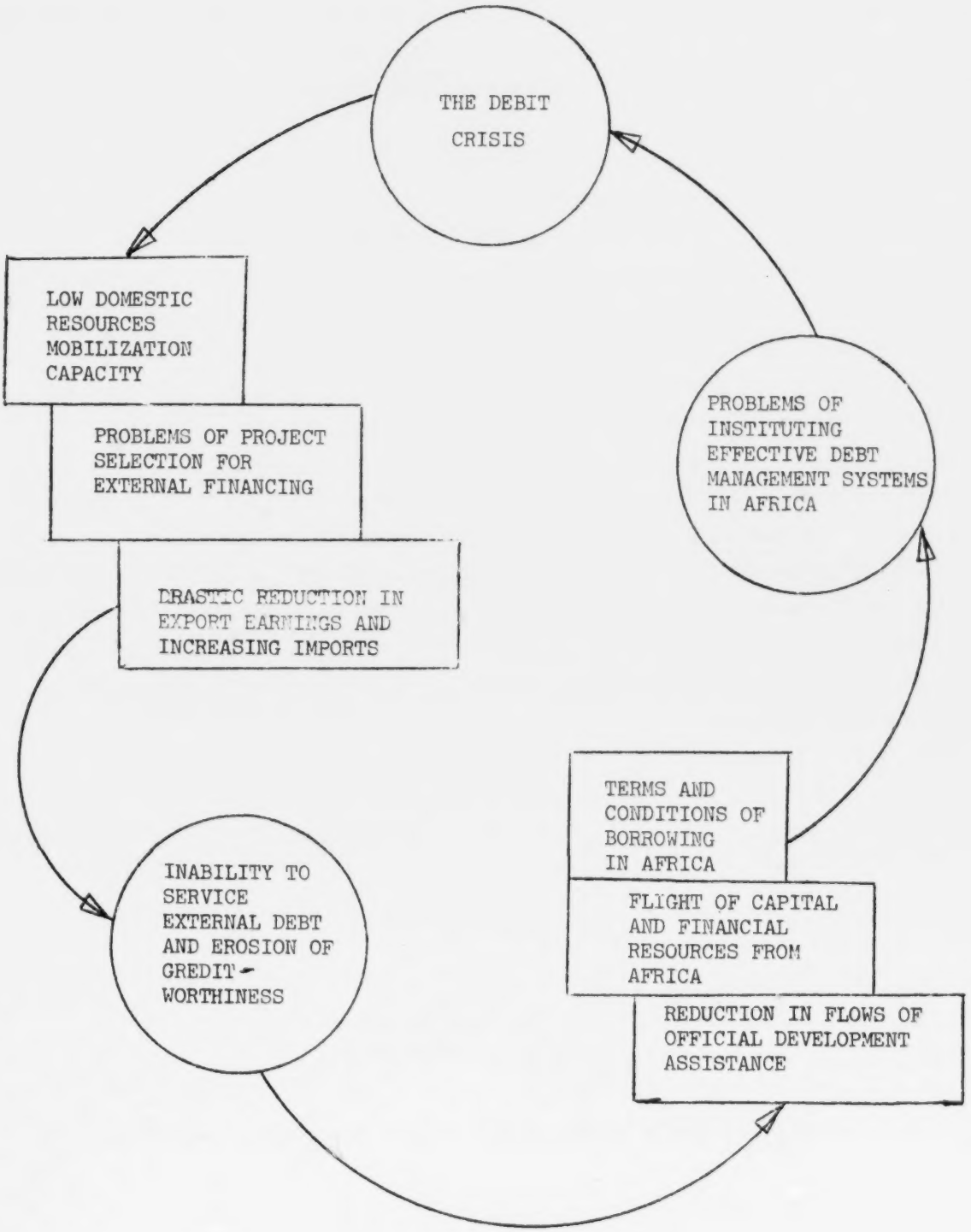
(a) Causes of the debt service crisis

36. There is evidence to show that Africa's debt service crisis is a combination of various developmental and related causes which are induced by endogenous as well as exogenous factors as in the Debt Service Polygram (Figure 1).

37. The internal factors include the following: rigidities in production structures, dependence on the export of a few raw materials and commodities and low complementarity of the African economies; excessive reliance on external sources for financing development and balance of payments; loan funds channelled to low return projects; inadequate external debt management capacity at national level; excessive resort to budget deficit financing through external borrowing both for recurrent and developmental expenditures; poor design, execution and monitoring of projects that lead to increased costs; low level of domestic resources mobilization due to lack of appropriate incentives to encourage savings; drought, natural calamities and environmental degradation resulting in reduced food production and leading to increased food import bills; economic dislocations that distort economic projections and necessitate diversions of resources, because of national disasters; inadequate negotiating capacity of African countries vis-a-vis complex international financial mechanisms with respect to debt contracting and renegotiations; difficulties for African countries to adopt appropriate exchange rate policies.

38. The external factors are identified as follows: decreased flows of concessional resources to African countries resulting in dramatic shift in debt structure from concessional to non-concessional loans with their hardened lending terms; the significant flight of capital and other resources resulting in net outflow of resources from Africa, [illegible] of the creditor community that African countries meet their debt service obligations without consideration of their ability to do so; unprecedented collapse of the prices of Africa's commodities and the consequential deterioration in the terms of trade which have undermined Africa's capacity to service its debt; deteriorating terms of borrowing including sudden increase in the real interest rates paid on long term

FIGURE 1 : THE DEBT SERVICE POLYGRAM (THE VICIOUS CIRCLE)


THE DEBIT CRISIS
LOW DOMESTIC RESOURCES MOBILIZATION CAPACITY
PROBLEMS OF PROJECT SELECTION FOR EXTERNAL FINANCING
DRASTIC REDUCTION IN EXPORT EARNINGS AND INCREASING IMPORTS
INABILITY TO SERVICE EXTERNAL DEBT AND EROSION OF GREDIT-WORTHINESS
REDUCTION IN FLOWS OF OFFICIAL DEVELOPMENT ASSISTANCE
FLIGHT OF CAPITAL AND FINANCIAL RESOURCES FROM AFRICA
TERMS AND CONDITIONS OF BORROWING IN AFRICA
PROBLEMS OF INSTITUTING EFFECTIVE DEBT MANAGEMENT SYSTEMS IN AFRICA

debts, particularly commercial loans, and reduced grace and repayments period; subsidies, mounting protectionist measures and restrictive business practices in the markets of the developed countries against exports from Africa.

39. Other external factors of critical importance include strict conditionalities, high cost and short term nature of some IMF facilities; activities of transnational corporations in African countries, especially inflated contracts, over-invoicing of imports and under-invoicing of exports; manipulations of commodity prices and of transfer pricing; excessive transfer of profits and other capital gains; and their preference for external borrowing instead of bringing in new equity capital; exchange rate fluctuations, especially the volatility of the US dollar vis-a-vis the other major currencies particularly as witnessed in the recent international financial and monetary turmoil; consequences of past rescheduling which only serve to increases the debt burden, since such rescheduling is done at market related interest rates; agressive economic destabilization policities by external forces and freezing of African funds in foreign banks; military, economic and political destabilization by the racist South African regime against the Frontline and other independent States in Southern Africa.

40. The combined effects of these factors have resulted in the following: Africa has been unable to respond adequately to external shocks; there have been declines and distortions in growth rates in many countries; problems have been encountered in implementing structural adjustments and economic policy reforms; some countries have experienced disruptions in their social and cultural structures; and the creditworthiness of many African countries has been seriously eroded making it more difficult for them to raise loans in the international money markets at competitive rates.

41. Africa's Priority Programme for Economic Recovery and Development 1986-1990 (APPER) adopted by the Heads of State and Governments of the Organization of African Unity identified Africa's external indebtedness as one of the main obstacles to the prospects for economic recovery and growth of the African countries. APPER laid down a programme of action to be implemented over a

five year period (1986-1990) to alleviate the social and economic crisis facing the African region. APPER also stressed that the structural imbalances, pervasive low levels of productivity and aggravating internal and external trends, have severely affected prospects for a resumption of growth and development. On the external side, improvements in the international economic environment will have to take place if the economic restructuring measures and reform of policies and institutions are to succeed.

42. At the national level, Africa is generally characterized by low levels of domestic savings and investment. Many African countries attempt to increase the inflow of resources by external borrowing without exhausting possibilities at the national level. Even though some African countries have tried to mobilize domestic financial resources, they have been confronted by obstacles of a psycological and social nature. Indeed, the highly non-monetized agricultural sector, which employs a considerable portion of the population in Africa is still strong and constitutes a major obstacle to savings. Hoarding and holding of real assets (goods, livestock etc.) are encouraged by the inadequacy of financial structures and the fact that a large protion of the population is unware of existing investment opportunities. Moreover, the very low income levels in the rural areas in most countries make it difficult for the majority of the population to make substantial savings. The rather low level of interest rates on savings also discourages those in a position to save. Given the terms under which such loans are granted, the prevailing indebtedness obstructs the channelling of resources towards the more productive sectors. To avoid these adverse situations there is an urgent need to establish mechanisms for development and strengthening of indigenous banking and financial institutions through which the effective mobilization and efficient management of the resources both domestic and external would be guaranteed.

(b) Development implications

43. There is a growing consensus at the international level that debt servicing obligations are rolling Africa the chances to engender economic recovery and growth. For instance, at UNCTAD VII in July 1987, member States recognised that the debt problems of the poorer countries in Sub-Saharan Africa are uniquely

difficult and need special treatment. UNCTAD VII also recognized that the magnitude of external indebtedness and the burden of debt service payments constitute a severe constraint on Africa's economic recovery and long-term development. It therefore agreed that the debt service burden of thepoorest countries,primarily in Sub-Saharan Africa, which are undertaking adjustment efforts should be eased by longer repayment and grace period, especially in the Paris Club and urged that consideration be given to reducing interest on their existing debt. The conference for the full implementation of the Trade and Development Board resolution 165 (S-IX) in respect of ODA debt for poorer developing countries.

44. The African Common Position on Africa's External Debt Crisis has identified the following effects of the external debt service crisis which need to be taken into account in any debt management strategy:

(i) Loss of Revenue: The impact of external shocks (such as variable interest rates, fluctuations in exchange rates of major currencies, increase in import bills and the decline in export earnings) was estimated to result in a loss of well over US$43 billion particularly between 1980 and 1984. In fact, African countries incurred heavy losses of foreign exchange greater than is indicated here, a development which seriously undermined the capacity of our countries to service their external debt and the implementation of the economic recovery programmes.

(ii) Reduction and distortions in growth rates: As a result of mounting debt servicing obligations (principal plus interest) which actually stood at over US$24 billion in 1986, substantial resources are diverted from essential development projects for debt servicing. Agricultural projects, on which both APPER and UN-PAAERD are anchored, cannot be implemented in the face of dwindling resources. These factors have significantly slowed down the rate of capital formation in African countries, many of which have registered stagnant or negative growth rates. This has been particularly so in rural areas where growth hardly took place.

(iii) Problems of structural adjustment and policy reforms: It is a fact that while many African countries have put in place wide-ranging structural adjustment programmes and economic reforms, these efforts are being thwarted by the diversion of resources to service debts; and their economies are therefore still unable to generate or sustain reasonable economic growth. This is being aggravated by lack of additional resources especially on concessional terms. Consequently, this situation has created serious problems in implementing economic policy reforms which would have engendered self-sustaining growth and recovery.

(iv) Disruption of the social and cultural structures: Increasing external debt servicing obligations within the present international constraints will result in serious distortions of the present socio-economic, political and cultural structures. The 1980's have witnessed a further reduction in the living standards of African countries. This is explained partly by the curtailment of social and infrastructural investment programmes in the wake of net transfer of resources out of Africa through debt servicing. Mass unemployment and poverty, which was largely confined to rural areas has now spread to most major urban centres. This threatens the very foundation of the African social and cultural structures, development of human resources and the involvement of the population in a national development project.

(v) Credit-Worthiness: The credit-worthiness of many African countries has been put to severe test in the wake of mounting debt servicing obligations. Many African countries are experiencing great difficulties in borrowing on reasonable terms and conditions at the very time when external resources are most needed. In fact, the inability to meet current debt service obligations has caused some African countries to be placed on the "Black list" at the IMF and other international development financing institutions.

PART III: MANAGEMENT OF AFRICA'S EXTERNAL DEBT

I. GENERAL PERSPECTIVES

45. Since 1980, the financial and monetary situation of African countries especially external debt has generally deteriorated as a result of a combination of internal and external factors. Growth rates are stagnating or declining and development financing has become more scarce resulting in curtailment of development programmes. Problems are also encountered in domestic resources mobilization and utilization which have led to declining incomes and further reduction in growth prospects. Externally, African countries, in line with other developing countries, face an unfavourable environment which is characterized by heavy reductions in foreign exchange earnings due to persistent low prices of primary commodities; official development assistance (ODA) has not grown in keeping with the real needs of the African countries and has in some cases actually declined in real terms; the continuing high real and nominal interest rates; volatile exchange rates of major world currencies; external debt has increased in absolute terms and debt-service obligations have been expanding far beyond the capacity of the economies; and flight of capital and net outflow of resources have increased significantly.

46. During the past five years, the ECA secretariat, in collaboration with the Organization of African Unity (OAU), the African Development Bank (ADB) and the African Centre for Monetary Studies (ACMS) has organized several expert group meetings and ministerial conferences on Africa's external debts crisis. These meetings culminated in the Third Extraordinary Assembly of Heads of State and Government of the Organization of African Unity on Africa's External Debt Crisis which was held from 30 November to 1 December 1987. In addition, the Secretariat of the United Nations Conference on Trade and Development (UNCTAD) and United Nations Institute for Training and Research (UNITAR) organized in April 1987, a meeting of high level experts

to review the training needs of debt managers in selected sub-Saharan African countries. These meetings identified the main framework in external debt and resources management as comprising the following critical elements: (i) the formulation of a sound external debt and resources management strategy; (ii) the identification of sources of borrowing and the disigning of an appropriate negotiating strategy taking into account terms and conditions relevant to a country's development situation; (iii) the assessment of the overall debt servicing and the sources of funding to meet these obligations; (iv) the development of effective debt reporting, monitoring and evaluation mechanisms at the national, subregional and regional levels including the development of up-to-date and reliable debt and resources statistics; (v) the development of technical and managerial capacities in external debt and resources management.

II. FRAMEWORK FOR DEBT MONITORING AND REPORTING

(a) Institutional Structures

47. The most critical aspect of debt management is the ability to determine, at any given time, the total debt owed by any country, the debt service obligations, the loan maturities and the provision for meeting the debt service. The creation of national debt units therefore becomes a sine qua non for effective debt management procedures. For details see Figure 2.

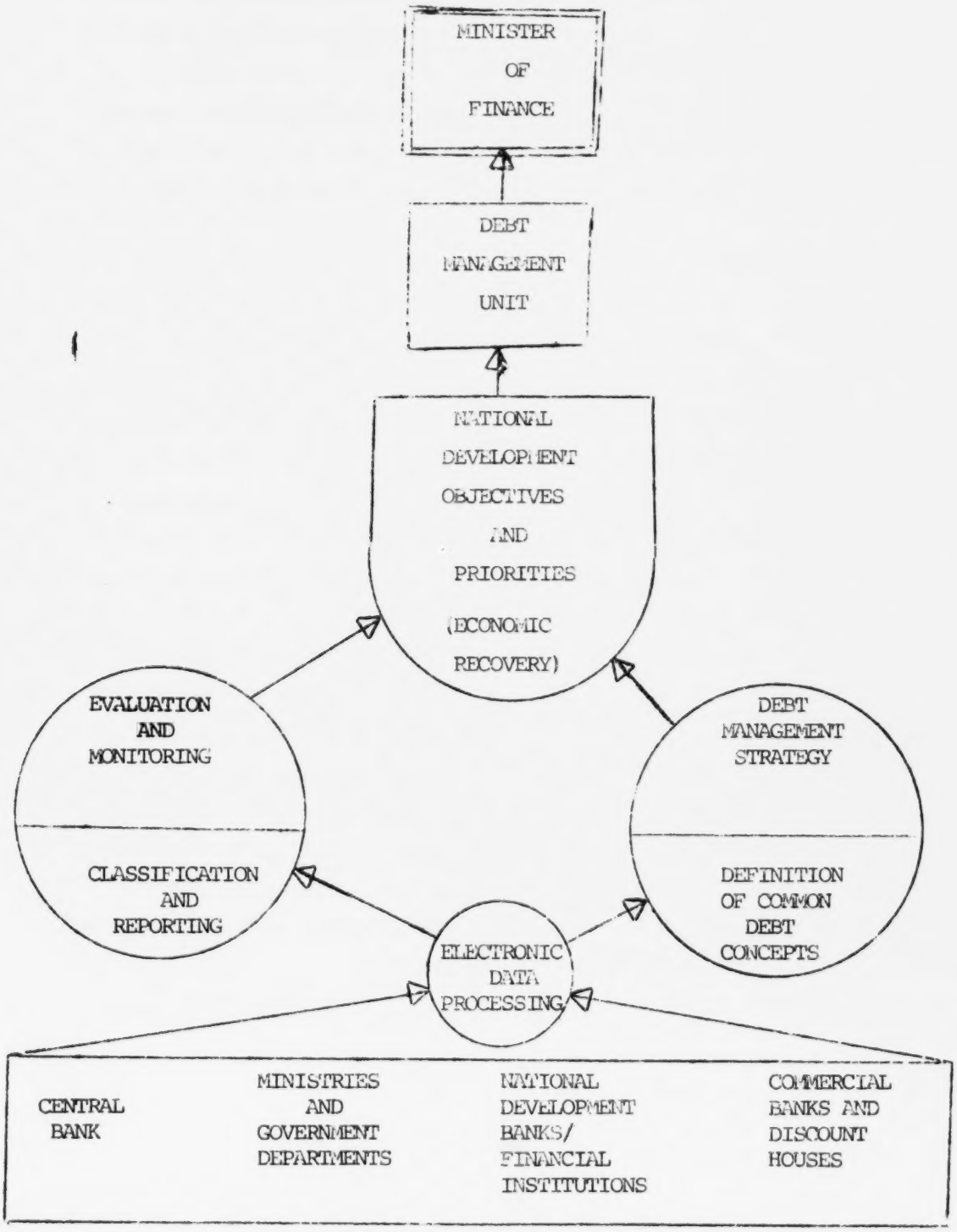
48. In some African countries, the management of the debt is assigned to administrative units in the Ministry of Finance, or the Central Bank. The most elaborate form of integrated debt management is the Caisse d'Amortissement found in a number of (Francophone) African countries and in Zaire is the Office de la Gestion de la Dette Publique (OGEDEP). The main problem is that generally debt management is diffused: different administrative units are responsible for the different aspects of debt management. Moreover debt offices do not have all the information necessary for management purposes, in part because the status and responsibilities of the debt management have not been established formally.

49. An essential element of debt management strategy is the clear definition of who is to be responsible for overall debt reporting and to whom. This implies the institution of a centralized debt reporting unit or department to which all information of external debt (including debt negotiations; preparation and signing of loan contracts; the determination of conditions for disbursement) should be reported. The essence of this is that the debt management strategy should be to improve the prospects for economic recovery and development of the countries concerned. At the core of this strategy therefore is the need to monitor effectively the use of external financing from borrowing.

50. It is also imperative that the resources management framework should be envisaged on a comprehensive approach linking together the size of export earnings, inflow of resources especially on conessional terms and the debt service obligations. Therefore, the role of the private sector should be fully considered in the debt management strategy. In this context, Africa's Priority Programme for Economic Recovery 1986-1990 and the United Nations Programme for African Economic Recovery and Development 1986-1990, stressed the importance of mobilizing adequate domestic and external financing and of effective management of external debt. This presupposes that the contribution of the private sector especially indigenous banking, towards resource mobilization is also critical. The role of indigenous banking and financial institutions is increasingly being recognized as vital to the efforts towards economic recovery and development in Africa. Many African governments have already put in place policies to encourage greater participation of the private enterprise in the development process. Presently, the role of indigenous financial institutions in the mobilization and management of development finance is really marginal compared to the developed countries and other developing regions of the world where these play a key role in this area.

Figure 2

FRAMEWORK FOR DEBT MANAGEMENT



(b) Problems of Debt Management

51. Since 1980, the countries of sub-Saharan Africa have suffered severe losses of export earnings as a result of depressed international commodity markets and adverse terms of trade. Between 1980 and 1986, earnings fell by 20 per cent. This resulted in enormous external payments deficits and economic dislocations, including a drop in per capita incomes of up to 25 per cent for many low-income African countries, and comparable losses in government revenues, investment, and consumption. Severe foreign exchange constraints adversely affected both use of productive capacity and the ability of African countries to service external debt. The combined effects of declining export earnings, contracting external capital inflows and increasing debt-service obligations were such as to make many African countries unable to achieve economic recovery.

52. Several different factors characterize the crisis in debt servicing. first, there was false expectation by African countries that their financial planning would depend on benevolence from industrialized countries. There was also the mistaken assumption that the world economy and the industrial countries would respond favourably to Africa's social and economic problems. The measures which industrial countries took to combat inflation contributed to a world recession with diminished demand thus falling primary commodity prices which in turn exacerbated the terms of trade for many African countries. As demand for their exports fell, and prices tumbled and savings reduced and current account deficits grew dramatically.

53. Even more important was the significant rise in real interest rate, which increased Africa's debt service obligations more than ever before. A second factor contributing to African countries vulnerability stems from their imperfect financial planning. Specifically, too much debt was contracted on floating (variable) interest rates and there was insufficient currency diversification. The third factor producing vulnerability was that the banks from the major industrial countries were directly encouraged by

their own governments to lend to the debtor countries. For instance, governments were prepared to endorse the recycling of OPEC's oil earnings through the World's commercial banking system, but not to deal directly with the consequences of the major thrift in wealth from the African countries through debt servicing.

54. Another serious problem has been the lack of indigenous banking and financial institutions that can mobilize domestic resources for development. Hence, like all developing regions, Africa has relied heavily on external financing for a significant portion of both recurrent and development expenditure. As it is well known, Africa is heavily dependent on imports. The bulk of these items can only be purchased by foreign exchange, the primary sources of which are the exports of its goods and commodities, and external resources inflows form of developmental assistance, loans and investments. This external capital did not [illegible] as was expected, the export capacity so as to provide the income to pay off the debts incurred while continuing to finance needed imports.

III. STRATEGY FOR EXTERNAL DEBT MANAGEMENT

55. The Declaration of the Third Extraordinary Assembly of Heads of State and Government of the Organization of African Unity on Africa's External Debt Crisis and African Common Position on Africa's External Debt Crisis adopted on 1 December 1987, affirmed that the current international strategies had failed to address the core of the African debt crisis and that "new and bold initiatives and measures have to be taken by the creditor community to deal with the African debt in a context that will allow the continent to implement its priority programme for economic recovery and development. In the absence of such a comprehansive approach we might eventually find ourselves in a situation where we could no longer honour our debt obligations inspite of all our good intentions" and "that the debt crisis of Africa will only be solved by an overall and equitable approach within the framework of an integrated, co-operative growth-oriented strategy that takes into account

the particular characteristics of the debt crisis in Africa. The debt strategy will need to be based on development, continuous dialogue and shared responsibility, and to be implemented with flexibility in an environment of strengthened international co-operation bearing in mind General Assembly and UNCTAD Resolutions adopted in that respect."

56. The African Common Position on Africa's External Debt Crisis calls for the harmonization of the collection and presentation of external debt statistics as an important step towards unified negotiation strategy. The establishment of common debt reporting mechanisms in an important aspects in this direction. The ECA secretariat, through its Statistics Division, the International Trade and Finance Division and the Pan-African Documentation and Information Systems (PADIS) is working towards this objective.

57. The mechanisms for common debt reporting requires the implementation of three interrelated activities listed below:

(i) as a first step, a thorough review should be made of existing national policies for external debt and resources management and the structural problems encountered in the African countries with a view to proposing more effective policies and strategies to alleviate the present crisis and to develop a Mannual on the Application of Common Concepts and Data Base on External Debt so as to provide a ready reference for debt management officials and legal experts in the African countries. This would serve as a framework for determination of external debt strategy, magnitude and policy and to promote the exchange of information and experiences in designing national strategies for external debt management, negotiation and monitoring;

(ii) there is also the need to develop adequate institutional mechanisms (debt reporting units)at the national, subregional and regional levels, for debt reporting, monitoring and evaluation, and inparticular, to backstop the installation and effective use of ECA's Pan-African Documentation and Information System (PADIS) at the subregional; and regional levels with a view to up-dating the capabilities for debt reporting;

(iii) In order to sustain the above system there is an urgent need to design an appropriate training programme for developing and upgrading the gechnical skills of managerial capabilities of senior and middle level officials of governments and selected indigenous banking and financial institutions in modern techniques of management of external debt and development finance through appropriate training programmes, workshops, seminars and round tables; the exchange of experiences among African countries in this field; the collection and analysis of external debt information; and to develop, strengthen and up-grade the skills of responsible technical officials and legal officers in preparing and negotiating loans credits and investment contracts and agreements and to design and prepare related negotiating on renegotiation mandates.

58. The design and implementation of effective debt reporting and monitoring systems at the national, subregional and regional levels requires specialized skills. Presently, this has mainly been carried out on ad hoc basis. There is the need to install in each country computerized debt monitoring system through electronic data processing. It is also important to equip governments and, in particular, administrative units responsible for debt management with skills involving the use of computers for a more effective management with skills involving the use of computers for a more effective management of external debt. In order to take into account of the need for the exchange of information and experiences in this field, close linkages between PADIS and national units will be achieved through regular consultations.

IV. MEASURE FOR ALLEVIATING THE DEBT SERVICE CRISIS

59. The African Common Position on Africa's External Debt Crisis sets out in great detail the inter-related measures and other actions to be adopted by the African governments, and those by the developed creditor countries and the international financial institutions. These are briefly summarized below: 1/

A. Measures to be Implemented by the African countries

(i) to strengthen the mechanisms for external debt management so as to enable all African countries to exercise more effective and centralized control of external borrowing by the public sector and monitoring of the private sector;

(ii) To adopt appropriate domestic resources mobilization policies and measures to ensure that Africa depends more on domestic resources f for recovery and growth; to reduce inflation and improve efficiency in economic and financial management; to improve the quality of investment in the public and private sectors; to give adequate incentives to projects that generate or save foreign exchange; and to formulate and implement programmes on the development and effective utilization of human resources so as to increase labour productivity and to promote scientific and technological development;

(iii) to support multinational joint ventures among African countries and to endeavour to recycle the net surpluses resources by improving the system of incentives to encourage African public and private investors to invest their resources in other African countries;

(iv) to intensify intra-African co-operation through the exchange of information and harmonization of positions on debt negotiations and reschedulings;

1/ For full information, see the African Common Position on Africa's External Debt Crisis adopted by the Third Extraordinary Assembly of Heads of State and Government of the Organization of African Unity on Africa's External Debt Crisis. Addis Ababa 30 November - 1 December 1987.

B. Measures to be implemented by the developed countries and international financial Institutions

(i) Official bilateral and officially guaranteed loans : creditor countries should waive repayments of past loans by converting them into grants; they should consider accepting repayment of part of the loans in local currencies; terms of official and officially guaranteed loans should be adjusted to the terms of the African Development Fund credits; and non-ODA officially guaranteed debts and servicing obligations should be consolidated into long-term loans at lower interest rates;

(ii) Multilateral loans: multilateral development finance institutions, including the World Bank, should increase the net flow of resources to African countries on conditions compatible with their economic situations; direct resources, on a priority basis, to sectoral programmes and quick-disbursing non-project lending for recovery and development; IMF should not become a net recepient of resources from Africa and should consider rescheduling of its credits, establish an additional mechanism for concessional financing and adjust its conditionality to take account of the real problems facing African countries;

(iii) Commercial banks: should apply more flexible lending conditions including lower interest rates, longer maturity, grace and rescheduling periods; conversion of commercial debts into transferable securities of at least 25 years at a lower interest rates; and that arrears on short-term loans should be converted into long-term loans;

(iv) Reschedulings: reschedulings should provide real debt relief other than merely postpone the repayment, More specifically the following should be implemented: in the event of the need to reschedule, multi-year rescheduling of a minimum of 5 years should be the norm, with maturities of at least 50 years, 10 years grace

and zero rate of interest, mechanisms should be explored whereby debt service payments agreed after rescheduling could be applied to effectively address both interest and the principal, for example the creation of Sinking or Redemption Fund to amorize the principal; the removal of the conditionality of implementation of stabilization programmes with IMF in order to obtain debt relief from creditors; within the framework of debt rescheduling, the creditor countries should not require the African debtor countries to adopt measures and economic doctrines that are incompatible with their economic and social systems; individual creditor countries which are members of the Paris Club should be allowed to negotiate and grant better rescheduling terms to African debtor countries than those obtainable within the framework of the Club; previously rescheduled debts in general should be made eligible for further rescheduling to ease the debt servicing burden of the debtor countries; action should be taken to expedite the bilateral negotiations on debt and give validity to the agreement reached in the multilateral fora, and for improving the internal procedures and systems.

(v) Resources for Development: developed countries should take action to substantially reduce international rates of interest on existing and future loans; stabilize exchange rates of major world currencies; implement the 0.7 per cent target of Gross Domestic Product of donor nations as well as substantial increase in quick disbursing lending; halt the net resource outflow from Africa especially to multilateral institutions such as the World Bank and IMF; raise the eligibility ceiling of IDA lending to enable more African countries to qualify for such resources and to ensure that at least 50 per cent of IDA resources are earmarked for assistance to Africa; contributions to IDA-7 should be speeded up and completed without delay and the yerms of IDA loans should be restored to their original level of 10 years grace period and 50 years repayment period with a service charge of 0.75 per cent; SDR allocations should

be increased to at least 15 billion SDRs; the conditionality criteria of IMF should be considerably eased; co-ordination between IMF and the World Bank and other financial institutions should be lead to cross-conditionality; the World Bank should re-establish the Special Facility for Sub-Saharan Africa;

(vi) Improving the African Primary Commodity Export Earnings: developed countries should take measures to improve Africa's commodity exports and stabilize the commodity export earnings at remunerative levels and should strengthen existing international commodity agreements; support programmes for increased processing of agricultural and primary commodities, including of agricultural and primary commodities, including food; eliminated subsidies on their agriculture so as to improve their imports from Africa; to speed up the implementation of the Common Fund for Commodities; and to establish a global scheme for stabilization of export earnings parallel to the STABEX;

(vii) Measures to support least developed and other disadvantaged African countries: developed countries should implement urgently, the measures contained in paragraphs 134-140 of the Final Act of UNCTAD VII and resolution 165 (S-IX) of UNCTAD's Trade and Development Board; all assistance to LDCs should be in the form of grants, implement their commitment to transfer at least 0.15 per cent of GNP to the LDCs; substantial cancellation of debts to LDCs and the adoption of special subsidies and refinancing schemes on very concessional terms, and deletion of cross-default clauses used by some donor agencies in respect of defaults on repayments by LDCs as a condition for further lending;

(viii) Interna ional Conference on Africa's External Indebtedness: Developed creditor countries and international financial institutions should accept the fact that the proposed conference is not envisaged as a confrontation. They should threrefore, actively support the convening of the conference as a genuine attmept to implement concrete and lasting solutions to Africa's external debt crisis.

PART IV SUMMARY OF CONCLUSIONS

60. From the foregoing analysis, several conclusions can be drawn having far-reading policy implications. Africa's external debt burden is growing at a pace that outstrips growth prospects. By the year 2000, the debt servicing obligations will be staggering. It is important to stress that,the future of Africa's recovery, growth and development prospects will largely be influenced by the success in dealing with the debt crisis. Therefore, it must be stressed that solutions to this crisis need to be comprehensive to take into account the linkage between external debt servicing, export earnings and resource in-flows. As experience has shown, any attempt to deal with each of these issues in isolation creates further problems of a more complicated nature. There is evidence to show the debt strategy was largely centred on the need to protect the internaitonal banking system and the creditor countries and the root causes of the debt servicing problems were generally ignored until it became obvious that many African countries simply had no capacity to repay their debts. Similarly, the international debt strategy was generally conceived on assumption that Africa's external debt crisis is both manageable and short-lived. The strategy has also largely focused on short-term stabilization programmes, supported by the Internaional Monetary Fund (IMF), within which the Paris Club played a dominant role, largely through rescheduling exercises. This approach also resulted in the conditionality that financing from banks and multilateral institutions to be based on acceptance by a country of IMF supported programmes. World Bank lending and bilateral flows also tend to be oriented in the same direction. This approach has often overlooked the deep structural problems underlying the debt crisis, which cannot be solved through short-term piece-meal programme

61. The second major observation is that in the mid-1970's, commercial banks and international financial institution pushed loans and credits to Africa' without realizing that the continent's ability to repay had been exhausted. Now the world has been deeply shocked to realize that once a country has been trapped in external debt service crisis it cannot free itself from such a situation without substantial external support. If no such support is forthcoming, the country borrows more and more to refinance maturing debt obligations. This itself further agravates the debt trap into a downward

spiral as shown in Figure 2. Consequently, there is no way that country can attain recovery and growth. In such a situation, it is not only poor debt management p9licies on the part of borrowing countries that result in serious repayment and debt servicing problems. 1/

62. The following conclusions are made as a basis for alleviating the external debt crisis and for further investigation of this issue:

(a) The implementation of an effective debt management strategy largely depends on the overall structure of the economy, the nature of each loan and what it is intended for, the type of projects involved and the level of expertise available in this field. Therefore, it is imperative that the purpose for which the loan is sought must be clearly defined. Where possible, efforts should be made to ensure that all loans are used for productive purposes and must generate adequate incomes, especially foreign exchange. The decision on sources of borrowing (i.e. multilateral or bilateral, government or private) is evidently critical since this would greatly influence the terms and conditions of borrowing and hence the debt servicing obligations. At the same time, the grace period should be negotiated bearing in mind the "gestation period" of each project (ie. the period it takes for a project to begin to yield returns) For instance, for many projects such as iron and steel complexes, petrol-chemical plants, railways, hydroelectric schemes and even agricultural projects such as tea and coffee, the "gestation period" might range between five and eight years before they can generate incomes. In such a case, it would be ill advised to negotiate a loan with a grace period of say, three or four years because by the time the loan becomes due, the project would not yet have generated any income.

(b) An important aspect of external debt management is that before the debt is contracted, the country's overall borrowing must be related to a country's ability to repay the loan. It is a sign of poor economic

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1/ See also Report on Symposium "Alleviating Africa's external Indebtedness" organized by the African Development Bank, Nairobi, May 1983.

judgement for a country to borrow without having the slightest clue on how the loan would be rapaid. Effective debt management also requires accurate projections of the time profile of each external debt obligation and of domestic revenues and access to other sources of finance. Part of this has to do with the introduction of effective domestic resources mobilization and the attraction of foreign of foreign resources, including direct foreign investment on terms and conditions compatible to the country's overall development policy. It is evidence of poor debt management in Africa if excessive borrowing is not related to the profitability of the projects financed.

(c) Another critical element of external debt management strategy is that a country should, at any given time, be in a position to assess or determine, its total external obligations (how much is owed, to whom, for what purpose and how this is to be repaid . Evidence shows that a substantial part of the African external debt crisis is that many countries do not hitherto have adequate information about the magnitude and implications of their debt service obligations. Therefore, the establishment of appropriate national debt reporting and monitoring units is the sine qua non of an effective debt strategy. To be really successful, there must be adequate training programmes to develop and up-grade technical and managerial skills and competence in each government in this field. Such training whould also include legal experts in debt negotiation and the preparation and implementation of external debt contracts and agreements that are compatible to and will enhance the implementation of the country's economic recovery programmes.

63. In conclusion, it needs to be stressed that the management of Africa's external debt is compex and requires serious effort by the governments concerned. While, such management is entirely the responsibility of the African governments themselves, the nature of the problem as discussed in this papers calls for the international community to co-operate and effectively assist in the search and institution of measures for dealing with the crisis. Therefore, the persistent crisis evidently indicates that a concerted international effort is needed now than ever before, to assist

African countries in the adoption of appropriate strategies for external debt management as well as external and domestic resources management. These will include the identification of sources of financing, the proper selection and design of projects that would generate foreign exchange resources, and the channeling of debt proceeds in critical areas that would enable the countries to enhance economic recovery and self-sustaining growth. There is also an urgent need to develop effective debt information and reporting systems, including appropriate analysis, evaluation and monitoring techniques, the development of common debt concepts and data base at the national level so as to enable countries to readily assess the magnitude and impact of external debt on the development process and the co-ordination of debt policy at the national level.